Edible oil industry: Expands soybean imports

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Pakistan appears to be on its way to altering its import mix of oilseeds and meals. The increase in the import tariff on soybean meal from zero to 11% during the last year and 10% this year, leading to a total 21% effective from July 1, 2015, is generally expected to reduce soybean meal imports with higher imports of soybeans.

Pakistan continues to expand its imports of soybeans, importing a record of more than 500,000 tonnes in 2014-15, with projected 2015-16 imports of 1.5 million tonnes, according to the U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS).

In addition to a tariff that now favours soybean imports over soymeal imports, a growing and modernizing domestic poultry sector, lower rapeseed imports, lower cotton production, and adequate crushing capacity are expected to support larger soybean imports. Imports of soybean meal are expected to drop from 1 million tonnes to 700,000 tonnes in 2015-16.

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Surprisingly, despite the higher tariff, exports of soybean meal to Pakistan were stronger than expected, rising to just over 1 million tonnes in 2014-15. To some degree, stronger than expected post-July imports were due to pre-existing forward purchases and import contracts. Exports of soybeans to Pakistan reached a record 540,000 tonnes in 2014-15. Looking forward, the ratio of soybean meal to soybean imports is expected to continue to tilt in favour of soybeans.

Table 1: Production of Vegelable Ghee and Cooking Oil (000 Tonnes)

Year	Vegelable Ghee	Cooking Oil	Total
2010-11	1,092	312	1,124
2011-12	1,103	323	1,426
2012-13	1,139	363	1,502
2013-14	1,185	375	1,560
2014-15	1,176	368	1,544

Source: Sate Bank of Pakistan - Annual Report 2014-15.

Vegetable ghee and cooking oil industry is one of the largest manufacturing sectors in the country and has grown since the country's independence in 1947. The total production was 1.12 million tonnes

In 2010-11, reached 1.56 million tonnes in 2013-14 and fell to 1.54 million tonnes in 2014-15.

The product market can be classified into two categories; vegetable and cooking oil. Cooking oil is purified fat of plant origin. Alternatively, when the process of hydrogenation is applied to vegetable oils and fats, it results in the conversion of liquid vegetable oil to solid or semi-solid fats, which have different melting points. This hydrogenated oil is called vegetable Ghee. In Pakistan production of vegetable ghee and cooking oil are given in **Table-1.**

The Pakistani people mainly consume sunflower, canola and soybean oil whilst the others are utilised mainly as ghee, a hydrogenated solid vegetable oil. Nowadays, in Pakistani cuisine, ghee is utilised for frying and cooking, whereas sunflower, canola and soybean oils are usually used for cooking and seasoning. Traditional cuisine varies in Pakistan: in KPK people prefer ghee or animal fats. In Sindh, traditional habits include a higher consumption of vegetable oils.

The Pakistani market for edible oils is changing. A shift to oils, rich in fats, has been taking place, which has been approved by the stakeholders. This shift is led by the wealthier and more educated part of the population that can afford this change in their consumption behaviours. The shift requires time because it involves two main aspects: change in eating habits (that are linked to health awareness but also to traditional behaviours) and competition in foreign edible oils markets. Vegetable ghee and cooking oils are widely used in different forms of cooking, baking, sautéing and deep frying and are also used at domestic and commercial levels.

Dietary habits all over the world, including those in Pakistan, are changing fast. Low fat, low cholesterol cooking oils are replacing ghee as cooking items.

Besides health awareness, increase in per capita income is contributing to the increase in the use of cooking oil. Almost 5% consumers in urban areas of Pakistan are shifting to cooking oil from vegetable ghee. However, in rural areas, ghee is still given preference, as it is considered more nutritious.

Import of edible oil

Import of edible oils decreased from Rs. 216 billion in 2011-12 to Rs. 209 billion in 2014-15, thus showing decline of 3%. Growth in population and in the fast food business led to the increasing intake of oily food items and higher industrial demand for crude palm oil, thus leading to a boost in import volume.

Pakistan has been a heavy buyer of soybeans this year as import duties and local sales taxes have made soybean imports for local crushing more attractive than soymeal imports. The USDA forecasts Pakistan's soybean imports will rise from 450,000 tonnes in the 2014-15 season to about 1 million tonnes in the 2015-16 season. Import of edible oils are given in **Table-2.**

Pakistan's soymeal requirements are on the rise owing to expansion in the poultry, dairy and livestock, and aquaculture sectors. The country imports canola from Canada and Australia. In March, Pakistani importers have bought about 60,000 tonnes of rapeseed/canola from Australia. Since the higher meal yield of soybeans makes their imports more attractive, traders expect Pakistan to buy 300,000 tonnes of soybeans in 2015. Pakistan's soybean oil imports, already low, will be further reduced if more beans are imported. Currently, the US provides small quantities of soybean oil to Pakistan in the form of food aid.

Production of edible oil seeds

The country has two main sources of edible oils, cotton seed, which is a by-product of the cotton ginning industry, and rapeseed or mustard seed which is traditionally grown on rained marginal lands. The country also grows sesame and groundnuts but their production is very limited and the cost is too high to yield competitively-priced oils.

Table 2: Import of Edible Oils

Year	Value (Rs. Million)
2009-10	112,288
2010-11	178,424
2011-12	216,387
2012-13	196,776
2013-14	206,955
2014-15	209,350

Source: Federal Bureau of Statistics, Government of Pakistan.

The former are cultivated traditionally and include cottonseed, rapeseed, mustard, sesame and groundnut. Sunflower, safflower and soybean are more non-conventional introduced in the 60s in the backdrop of the Green Revolution.

It is a sad reflection of the past policies that the country has failed to produce edible oil in adequate quantity over the years to meet its domestic requirements. All efforts made so far to increase local production have been unsuccessful and the gap between production and consumption continues to widen. As such, the country is a net importer of oilseeds and edible oils, as domestic production can hardly meet 25% of total demand. The local oilseed output consists of cotton seed, sunflower seed and rapeseed. Cottonseed is the major supplier of the domestically produced oil, while rapeseed, mustard (canola included) and sunflower play a minor role.

Although the government is laying more emphasis on the use of soybean as an oilseed as well as edible oil, it is also planning to launch an action plan for increasing production of canola oilseed. It is proposed that canola should at least meet one third of the oil seed needs, but the problem is that its area under cultivation is constantly in decline due to farmers' shift to wheat crop because of government's better wheat support price.

Demand of Soymeal

Pakistan's soymeal requirements are on the rise owing to expansion in the poultry, dairy and livestock, and aquaculture sectors. The poultry meat production is increasing at a pace of more than 10% per annum. The layer industry is also developing rapidly and has become a relatively cheap source of protein. During 2013-14, about 160,000 tonnes of soymeal was imported from Argentina rather than India mainly due to latter's high prices and bad quality.

Similarly, the dairy sector's feed demand is also increasing because most of the dairy firms rely on high milk yielding animals which, in turn, require quality feeds. This has created vast business opportunities for feed manufacturers. As a result, the demand for soymeal has moved from the traditional 5%-7% to 10%-15%. The USDA officials expect the demand to grow to more than 1.0 million tonnes over the next five years. The US is likely to become a strong competitor for soymeal exports to Pakistan.

Pakistan is also expected to export a small quantity of soybean meal in 2015-16. Currently, sources suggest that Sri Lanka may become a customer for soybean meal produced in Pakistan.

Conclusion

Pakistan continues to expand its imports of soybeans, importing a record of more than 500,000 tonnes in 2014-15, with projected 2015-16 imports of 1.5 million tonnes. In addition to a tariff that now favours soybean imports over soymeal imports, a growing and modernizing domestic poultry sector, lower rapeseed imports, lower cotton production, and adequate crushing capacity are expected to support larger soybean imports. Imports of soybean meal are expected to drop from 1.o million tonnes to 700,000 tonnes in 2015-16.

The ratio of soybean meal to soybean imports is expected to continue to tilt in favour of soybeans. Importers are lining up their supplies for 2015-16 and have reportedly contracted for at least 500,000 tonnes of soybeans for the first six months of the marketing year. At this stage, it does not appear that deals have been struck for 2015-16 soybean meal from the Western Hemisphere. There is always potential for soybean meal imports from India. Much will depend on the relative advantages of lower freight costs, shorter shipping times, and smaller shipments from nearby India. Importers and feed compounders have much to consider when weighing the price benefits of soybeans vs. soybean meal and India vs. Western Hemisphere suppliers. However, as long as the current duty structure is in place, soybeans are expected to comprise an increasingly large share of soy complex imports. Lower 2015-16 cotton production is also expected to support additional imports of soybeans. Pakistan is also expected to export a small quantity of soybean meal in 2015-16. Currently, sources suggest that Sri Lanka may become a customer for soybean meal produced in Pakistan.

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